



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARION COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARION COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

The Auditor of Public Accounts has completed the Marion County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued a qualified opinion on the financial statements because of matters relating to expenditures, payroll, and occupational taxes.

#### **Report Comments:**

- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review And The Fiscal Court Claims Should Be Recorded In The Fiscal Court Order Book
- Accurate Accounting Records Should Be Maintained By The County
- Proper Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Claims And Obligations Within Thirty Days
- Amounts Transferred To Health Insurance Revolving Fund Should Be Properly Documented
- Quarterly Income Taxes Should Be Remitted In A Timely Manner
- Payroll Expenditures Should Be Properly Posted To The Appropriations Ledger
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

#### **Financial Condition:**

Fund balances increased by \$470,982 from the prior fiscal year, resulting in a cash surplus of \$1,450,732 as of June 30, 2000.

#### **Debt Obligations:**

Long-term notes payable totaled \$5,921,608 as of June 30, 2000. Future principal and interest payments of \$9,209,019 are needed to meet these obligations.

#### **Deposits:**

As of August 31, 1999, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, as of June 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$214,915 of public funds uninsured and unsecured. In addition, the county did not have written agreements with all depository institutions securing the county's interest in the collateral.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David R. Hourigan, Marion County Judge/Executive  
Members of the Marion County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Marion County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Marion County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth and fifth paragraphs below, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Marion County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

We were unable to obtain a signed management representation letter from the former Marion County Treasurer. We also noted several deficiencies involving Fiscal Court's accounting and payroll systems that prevented us from verifying the amounts shown in the financial statements. We were unable to obtain invoices or other documentation supporting all expenditures for goods and services: we selected expenditures totaling \$2,799,824 for testing, and were unable to locate supporting documentation for \$409,357 or 14.6%; we also noted numerous other invoices, totaling at least \$18,539, that were erroneously paid twice.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

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In addition, we were unable to determine accurate balances for individual salary accounts, including employer share accounts, due to improper postings involving income taxes and other withholdings. We tested the appropriations ledger accounts for five employees and noted that none of their health insurance premiums (\$5,459 per the county's payroll records) were posted to these accounts; we also noted that several other withholdings (approximately \$6,000 per county payroll records) were not posted to any account. Based on this, we believe the employee share of health insurance premiums and deferred compensation (\$101,404 and 5,940 respectively per the county's payroll records) were posted incorrectly to the employer share accounts; we were unable to determine the total amount of income taxes and other withholding not posted to the appropriations ledger. We also determined that total payroll per the county's financial statements exceeds payroll records by \$28,671, and that these payroll records exceed the amount reported on 941 forms by \$17,533; this causes a difference of \$46,204 between gross pay per the county's financial statements and the amount reported to the Internal Revenue Service. We were also unable to test occupational employment taxes of \$1,315,308 as no detailed ledger was maintained for these receipts.

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2001 on our consideration of Marion County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review And The Fiscal Court Claims Should Be Recorded In The Fiscal Court Order Book
- Accurate Accounting Records Should Be Maintained By The County
- Proper Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Claims And Obligations Within Thirty Days
- Amounts Transferred To Health Insurance Revolving Fund Should Be Properly Documented
- Quarterly Income Taxes Should Be Remitted In A Timely Manner
- Payroll Expenditures Should Be Properly Posted To The Appropriations Ledger
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

In our opinion, except for the effects of the matters relating to expenditures, payroll, and occupational taxes as discussed above and on the prior page, if any, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions as of June 30, 2000, of Marion County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David R. Hourigan, Marion County Judge/Executive  
Members of the Marion County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Marion County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, except for the effects of the matters discussed in the fourth and fifth paragraphs, above, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 12, 2001



MARION COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

**Fiscal Court Members:**

David R. Hourigan	County Judge/Executive
William Kelley Bradshaw, Jr.	Magistrate
J.B. Thomas	Magistrate
Robert G. Craig, Sr.	Magistrate
Joseph D. Thompson	Magistrate

**Other Elected Officials:**

Joseph H. Mattingly, III	County Attorney
Charles L. Webb	Jailer
Samuel Edward Lee, III	County Clerk
Kim May	Circuit Court Clerk
Carroll Kirkland	Sheriff
Raphael Spalding	Property Valuation Administrator
Bobby A. Hardin	Coroner

**Appointed Personnel:**

Donald George	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

MARION COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	274,629	
Road and Bridge Fund:			
Cash		3,370	
Jail Fund:			
Cash		64,104	
Local Government Economic Assistance Fund:			
Cash		64,526	
Ambulance Service Fund:			
Cash		3,516	
Retirement Account - Cash		720	
Social Security Account - Cash		4,094	
Health Insurance Account - Cash		<u>843</u>	\$ 415,802

Special Revenue Fund Type

Grants Fund:			
Cash	\$	346,340	
Public Properties Corporation Fund:			
Fair Association Account - Cash		<u>49,430</u>	395,770

Capital Projects Fund Type

Public Properties Corporation Fund:			
Jail Construction Account - Cash	\$	254,088	
EMS Building Construction Account - Cash		<u>390,729</u>	<u>644,817</u>
Total Assets			\$ 1,456,389

The accompanying notes are an integral part of the financial statements.

MARION COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2000  
 (Continued)

Assets and Other Resources (Continued)

Other Resources

Capital Projects Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Note Principal Payments	\$ 5,921,608
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Total Assets and Other Resources	<u>\$ 7,377,997</u>
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Liabilities and Fund Balances

Liabilities

General Fund Type

Retirement Account - Cash	\$ 720	
Social Security Account - Cash	4,094	
Health Insurance Account - Cash	<u>843</u>	\$ 5,657

Capital Projects Fund Type

Public Properties Corporation Fund:

Note Payable (Note 4A)	\$ 20,000	
Note Payable (Note 4B)	5,176,608	
Note Payable (Note 4C)	<u>725,000</u>	5,921,608

MARION COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2000  
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

Capital Projects Fund Type

Public Properties Corporation Fund -

Jail Construction Account	\$ 254,088	
EMS Building Construction Account	<u>390,729</u>	\$ 644,817

Unreserved:

General Fund Type

General Fund	\$ 274,629	
Road and Bridge Fund	3,370	
Jail Fund	64,104	
Local Government Economic Assistance Fund	64,526	
Ambulance Service Fund	<u>3,516</u>	410,145

Special Revenue Fund Type

Grants Fund	\$ 346,340	
Public Properties Corporation Fund -		
Fair Association Account	<u>49,430</u>	<u>395,770</u>

Total Liabilities and Fund Balances		<u><u>\$ 7,377,997</u></u>
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The accompanying notes are an integral part of the financial statements.



STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MARION COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	Totals (Memorandum Only)	General Fund Type		
		General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,500,198	\$ 3,177,861	\$ 922,703	\$ 1,648,826
Transfers In	521,931	46,931	95,000	155,000
Borrowed Money	725,000			
Kentucky Advance Revenue Program	1,177,315	1,118,830	58,485	
Total Cash Receipts	<u>\$ 8,924,444</u>	<u>\$ 4,343,622</u>	<u>\$ 1,076,188</u>	<u>\$ 1,803,826</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,909,631	\$ 2,692,353	\$ 1,016,650	\$ 1,761,683
Schedule of Public Properties Corporation Fund Expenditures	683,307			
Transfers Out	521,931	475,000		
Kentucky Advance Revenue Program - Principal	1,177,315	1,118,830	58,485	
Principal on Notes Payable	161,278			157,278
Total Cash Disbursements	<u>\$ 8,453,462</u>	<u>\$ 4,286,183</u>	<u>\$ 1,075,135</u>	<u>\$ 1,918,961</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 470,982	\$ 57,439	\$ 1,053	\$ (115,135)
Cash Balance - July 1, 1999	979,750	217,190	2,317	179,239
Cash Balance - June 30, 2000	<u>\$ 1,450,732</u>	<u>\$ 274,629</u>	<u>\$ 3,370</u>	<u>\$ 64,104</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
Fiscal Year Ended June 30, 2000  
(Continued)

General Fund Type		Special Revenue Fund Type		Capital Projects Fund Type	
Local Government Economic Assistance Fund	Ambulance Service Fund	Grants Fund	Public Properties Corporation Fund Fair Association Account	Public Properties Corporation Fund Jail Construction Account	Public Properties Corporation Fund EMS Building Construction Account
\$ 26,527	\$ 208,212 225,000	\$ 346,340	\$ 136,805	\$ 17,544	\$ 15,380  725,000
<u>\$ 26,527</u>	<u>\$ 433,212</u>	<u>\$ 346,340</u>	<u>\$ 136,805</u>	<u>\$ 17,544</u>	<u>\$ 740,380</u>
\$	\$ 438,945	\$	\$ 87,559	\$ 293,028	\$ 302,720 46,931
			4,000		
<u>\$ 0</u>	<u>\$ 438,945</u>	<u>\$ 0</u>	<u>\$ 91,559</u>	<u>\$ 293,028</u>	<u>\$ 349,651</u>
\$ 26,527 37,999	\$ (5,733) 9,249	\$ 346,340	\$ 45,246 4,184	\$ (275,484) 529,572	\$ 390,729
<u>\$ 64,526</u>	<u>\$ 3,516</u>	<u>\$ 346,340</u>	<u>\$ 49,430</u>	<u>\$ 254,088</u>	<u>\$ 390,729</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Marion County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Marion County Public Properties Corporation as part of the reporting entity.

Additional - Marion County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Marion County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Marion County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Marion County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and the Ambulance Service Fund.

MARION COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Grants Fund and the Public Properties Corporation Fair Association Fund are reported as Special Revenue Fund Types.

3) Capital Projects Fund Type

Capital Project Funds Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation Jail Construction Fund and the Public Properties Corporation EMS Building Construction Fund are reported as Capital Projects Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Marion County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fair Association Fund (Special Revenue Fund Type) and the Public Properties Corporation Jail Construction and EMS Building Construction Funds (Capital Project Fund Type). The Department for Local Government does not require these funds to be budgeted. Also, a formal budget was not adopted for the Grants Fund (Special Revenue Fund Type). Although the Grants Fund is required to be budgeted, no expenditures were made from this fund during the fiscal year.

MARION COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marion County Fiscal Court:

Marion County Water District	Raywick Fire Department
Marion County Public Library	Loretto Fire Department
Marion County Soil Conservation District	Bradfordsville Fire Department
	Lebanon Fire Department

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 17.55 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

MARION COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of August 31, 1999, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, as of June 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$214,915 of public funds uninsured and unsecured. In addition, the county did not have written agreements with all depository institutions securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2000.

	<u>Bank Balance</u>
Insured or collateralized with securities held by the county's agent in the county's name	\$ 1,019,811
Uncollateralized and uninsured	<u>214,915</u>
Total	<u>\$ 1,234,726</u>

Note 4. Long-Term Debt

- A. On June 21, 1995, the Marion County Public Properties Corporation borrowed \$40,000 from Citizens National Bank for the purposes of funding improvements made to the Floral Hall at the Marion County Fairgrounds. Interest is payable semiannually at the rate of 5.81 percent. The note is to be repaid upon demand. As of June 30, 2000, the balance of the note was \$20,000.
- B. On June 10, 1998, the Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$5,400,000 from Community Trust Bank, F.S.B. for the purpose of funding the expansion of the Marion County Detention Center. The estimated cost of the expansion was \$1,990,046; the remaining balance of the contract, lease, and option was used to pay off the financing statement with Star Bank, N.A. for the original construction. The date of the final maturity of the obligation is May 1, 2018. As of June 30, 2000, the outstanding balance was \$5,176,608.

MARION COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 4. Long-Term Debt (Continued)

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>	<u>Total</u>
June 30, 2001	\$ 284,848	\$ 178,322	\$ 463,170
June 30, 2002	275,037	182,125	457,162
June 30, 2003	264,666	192,496	457,162
June 30, 2004	254,389	202,773	457,162
June 30, 2005	242,159	215,003	457,162
Thereafter	<u>1,737,217</u>	<u>4,205,889</u>	<u>5,943,106</u>
Totals	<u>\$ 3,058,316</u>	<u>\$ 5,176,608</u>	<u>\$ 8,234,924</u>

- C. On December 20, 1999, the Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$725,000 from Community Trust Bank, F.S.B. for the purpose of funding the construction of the Marion County Disaster and Emergency Services Facility. The date of the final maturity of the obligation is December 1, 2009. As of June 30, 2000, the outstanding balance was \$725,000.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>	<u>Total</u>
June 30, 2001	\$ 41,101	\$ 59,339	\$ 100,440
June 30, 2002	38,222	62,218	100,440
June 30, 2003	34,511	65,929	100,440
June 30, 2004	30,578	69,862	100,440
June 30, 2005	26,412	74,028	100,440
Thereafter	<u>58,271</u>	<u>393,624</u>	<u>451,895</u>
Totals	<u>\$ 229,095</u>	<u>\$ 725,000</u>	<u>\$ 954,095</u>

Note 5. Lease-Purchase Agreement

The county has entered into the following lease-purchase agreement:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Lease Purchase Agreement				
Various Equipment and Vehicles	12/02/96	05/15/06	6.25%	<u>\$ 50,186</u>



MARION COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 6. Subsequent Events

On September 11, 2000, County Treasurer, Donald George resigned his position. A new County Treasurer was appointed on October 31, 2000. Additionally, the position of Finance Officer was created and filled on September 13, 2000.

Note 7. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1)(2), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 68.210 requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletins 93-002 and 97-001 provide additional accounting and expenditure guidance for acceptable jail canteen operations.

The Marion County Jail Canteen Fund had income of \$219,294, less cost of goods sold of \$128,308, less other expenses of \$110,659, leaving a net loss of \$19,673 for the year ended June 30, 2000. All expenditures appeared to be acceptable.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



MARION COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,078,170	\$ 3,177,861	\$ 99,691
Road and Bridge Fund	839,500	922,703	83,203
Jail Fund	1,854,465	1,648,826	(205,639)
Local Government Economic Assistance Fund	10,000	26,527	16,527
Ambulance Service Fund	274,000	208,212	(65,788)
Totals	<u>\$ 6,056,135</u>	<u>\$ 5,984,129</u>	<u>\$ (72,006)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 6,056,135
Add: Budgeted Prior Year Surplus	336,301
Add: Budgeted Borrowed Money	1,189,000
Less: Budgeted Other Financing Uses	<u>(1,477,500)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 6,103,936</u>

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SCHEDULE OF OPERATING REVENUE





MARION COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type
Taxes	\$ 1,898,187	\$ 1,898,187	\$	\$
Excess Fees	106,050	106,050		
License and Permits	6,692	6,692		
Intergovernmental Revenues	2,922,793	2,561,450	361,343	
Charges for Services	1,203,432	1,203,432		
Miscellaneous Revenues	282,895	161,433	121,462	
Interest Earned	80,149	46,885	340	32,924
Total Operating Revenue	<u>\$ 6,500,198</u>	<u>\$ 5,984,129</u>	<u>\$ 483,145</u>	<u>\$ 32,924</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



MARION COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 627,145	\$ 562,092	\$ 65,053
Protection to Persons and Property	2,035,291	1,854,467	180,824
General Health and Sanitation	815,000	805,570	9,430
Social Services	4,500	2,062	2,438
Recreation and Culture	60,000	54,580	5,420
Roads	1,027,000	909,176	117,824
Bus Service	42,000	37,536	4,464
Other Transportation Facilities and Services	243,000	242,089	911
Debt Service	198,500	339,833	(141,333)
Capital Projects	130,000	98,975	31,025
Administration	921,500	1,003,251	(81,751)
Total Operating Budget - All General Fund Types	\$ 6,103,936	\$ 5,909,631	\$ 194,305
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	1,177,500	1,177,315	185
Principal on Notes Payable	300,000	157,278	142,722
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 7,581,436</u>	<u>\$ 7,244,224</u>	<u>\$ 337,212</u>

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SCHEDULE OF PUBLIC PROPERTIES CORPORATION FUND EXPENDITURES





MARION COUNTY  
SCHEDULE OF PUBLIC PROPERTIES CORPORATION FUND EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	Fair Association Account	Jail Construction Account	EMS Building Construction Account	Total Public Properties Corporation
4-H Shows and Exhibitions	\$ 703	\$	\$	\$ 703
Advertising	3,283			3,283
ATV Races	1,060			1,060
Beauty Pageants	2,785			2,785
Beef Shows	1,455			1,455
Carnival Rides	18,296			18,296
Dairy Shows	1,923			1,923
Demolition Derby	1,500			1,500
Dues and Subscriptions	235			235
Fireworks	2,650			2,650
General Fair Expense	3,135			3,135
Harness Racing	2,482			2,482
Home Economics Floral Hall	1,947			1,947
Horse Shows	10,066			10,066
Insurance	5,871			5,871
Interest on Note	1,504			1,504
Mowing and Cleaning	286			286
Office Supplies	137			137
Other Fair Events	1,233			1,233
Postage and Delivery	123			123
Refunds	775			775
Repairs and Maintenance	13,854			13,854
Supplies	126			126
Taxes, Licenses and Permits	1,489			1,489
Truck and Tractor Pulls	4,341			4,341
Utilities and Telephone	6,025			6,025
Professional Services		52,130	33,823	85,953
Jail Construction		240,898		240,898
Building Construction			255,416	255,416
Paving			10,851	10,851
Loan Origination Fee			2,500	2,500
Miscellaneous	275		130	405
Totals	<u>\$ 87,559</u>	<u>\$ 293,028</u>	<u>\$ 302,720</u>	<u>\$ 683,307</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David R. Hourigan, Marion County Judge/Executive

Members of the Marion County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Marion County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated February 12, 2001. Except as disclosed on page 1 of the "Independent Auditor's Report" in relation to expenditures, payroll, and occupational taxes, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Marion County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review And The Fiscal Court Claims Should Be Recorded In The Fiscal Court Order Book
- Accurate Accounting Records Should Be Maintained By The County
- Proper Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Claims And Obligations Within Thirty Days
- Amounts Transferred To Health Insurance Revolving Fund Should Be Properly Documented
- Quarterly Income Taxes Should Be Remitted In A Timely Manner
- Payroll Expenditures Should Be Properly Posted To The Appropriations Ledger
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Marion County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review And The Fiscal Court Claims Should Be Recorded In The Fiscal Court Order Book
- Accurate Accounting Records Should Be Maintained By The County
- Proper Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Claims And Obligations Within Thirty Days
- Amounts Transferred To Health Insurance Revolving Fund Should Be Properly Documented
- Quarterly Income Taxes Should Be Remitted In A Timely Manner
- Payroll Expenditures Should Be Properly Posted To The Appropriations Ledger
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider all of the reportable conditions discussed above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 12, 2001

## COMMENTS AND RECOMMENDATIONS





MARION COUNTY  
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2000

NONCOMPLIANCES WITH STATE LAWS AND REGULATIONS

- 1) The County Judge/Executive Should Present All Claims To The Fiscal Court For Review And The Fiscal Court Claims Should Be Recorded In The Fiscal Court Order Book

During the audit, we noted that the County Judge/Executive did not present all claims to the fiscal court for their review. KRS 68.275(2) states, the county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid. At their August 3, 2000 meeting, the fiscal court voted against having two meetings per month, so that all claims could be approved prior to payment. Additionally, KRS 67.100(2) requires that fiscal court claims be recorded in the fiscal court order book and meeting minutes. We recommend that the County Judge/Executive comply with KRS 68.275(2) and present all claims to the fiscal court for their review. We also recommend fiscal court comply with KRS 67.100(2) by recording all claims in the appropriate order book and meeting minutes.

*County Judge/Executive's Response:*

*The Marion County Fiscal Court is now meeting twice per month. All claims are presented to the Court and recorded in Court Minutes.*

*Former County Treasurer's Response:*

*I was not aware that an audit was being performed and I was requested to sign a management representation letter.*

*When I resigned my position as Marion County Treasurer, the invoices and documentation supporting all expenditures for goods and services were properly filed and in the office. Since I am no longer employed there, I can't explain why some are missing, except, that I would notice from time to time when so employed that someone was going through all records. In addition, records would turn up missing and never returned. Obviously, there had to be invoices and documentation supporting all expenditures at some point because the Marion County Fiscal Court and County Judge would review same before authorizing me to pay same. When I would attend the Fiscal Court meetings, I always take all the invoices for review and questions.*

*As to the bills that were paid twice, be advised that the EMS service and Marion District Court would often be late in submitting bills. I would be expected to go through all of these bills in a short time and determine what was what without any assistance. These bills should have been reviewed by department heads before being brought to me, but they weren't. There was no way I could review and determine what was what. Some were past due on numerous occasion. If some were hurriedly authorized to be paid, then, once paid, another bill would be reviewed before payment reached the company; thus, the bill would be paid twice.*

*As to individual salary accounts, I wanted to change as to recommendations of state auditors but I was told internally to continue as had been the practice.*

*Auditor's Reply:*

*We faxed a management representation letter to Elmer J. George, Attorney at Law, representing Donald George, former County Treasurer and it was never returned to our office.*

MARION COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2000  
(Continued)

NONCOMPLIANCES WITH STATE LAWS AND REGULATIONS (Continued)

2) Accurate Accounting Records Should Be Maintained By The County

The County's appropriation ledger was not correctly posted, thus resulting in an inaccurate county financial statement. We noted that numerous expenditures were posted to improper expenditure accounts. In addition, we noted a \$50,000 transfer from the general fund to the health insurance revolving fund that was not posted to the appropriation ledger or the warrant distribution register. These posting errors present inaccurate totals for line item expenditures, thus hindering the budget preparation process. Also, we were unable to test occupational employment taxes of \$1,315,308 as no detailed ledger was maintained for these receipts. We recommend that accurate records be maintained in the future and all expenditures be posted to proper expenditure accounts.

*County Judge/Executive's Response:*

*Health Insurance payments are now taken per rata from each department. While the ledger containing records of occupational employment taxes was never located individual files on individual and businesses reflect the collection of these taxes.*

*Former County Treasurer's Response:*

*See previous answer.*

3) Proper Documentation Should Be Maintained For All Expenditures

During our test of expenditures, we noted that the county did not maintain proper documentation for all expenditures. We were unable to locate invoices or other documentation supporting \$931,366 in expenditures and had to request copies of this evidence from vendors. As of the audit date, we still had not located documentation supporting \$409,357 in expenditures. Also, as discussed in another comment below, one road department employee was reimbursed mileage of \$4,628 during the year, for which no documentation was submitted. In addition, it came to our attention that numerous invoices, totaling at least \$18,539, were paid twice during the fiscal year. We recommend, in the future, proper documentation be maintained for all expenditures, including travel, and that such documentation be stamped, perforated, or otherwise cancelled to prevent duplicate payment.

*County Judge/Executive's Response:*

*The county's new Chief Financial Officer has begun procedures which will bring us in compliance with the issues raised.*

*Former County Treasurer's Response:*

*See previous answer.*

MARION COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2000  
(Continued)

NONCOMPLIANCES WITH STATE LAWS AND REGULATIONS (Continued)

4) The Fiscal Court Should Pay Claims And Obligations Within Thirty Days

During the course of the audit, it came to our attention that several invoices and obligations were not paid in a timely manner. We noted several reminder notices received from vendors. The county incurred fees of \$5,000 for a late payment of principal and interest on the note payable for the jail. In addition, as discussed in another comment below, federal withholding taxes for October 1999 through March 2000 were not reported or remitted to the authorities until June 2000. KRS 65.140 requires all bills for goods and services be paid within thirty working days of receipt of vendor's invoice. We recommend that the fiscal court monitor the payment of claims and require that claims be paid on a timely basis.

*County Judge/Executive's Response:*

*By meeting twice per month all claims will be paid within (30) days.*

5) Amounts Transferred To Health Insurance Revolving Fund Should Be Properly Documented

During the fiscal year, \$437,645 was transferred from operating funds to the health insurance revolving fund to pay employer and employee share of health insurance premiums. We were unable to locate any documentation supporting the amounts transferred; therefore, we cannot determine whether appropriate amounts were transferred from specific funds. In addition, employee share of health insurance premiums was posted to employer share budget appropriation accounts, rather than individual salary accounts. This caused inaccurate totals to be presented for line item expenditures, thus hindering the budget preparation process. We recommend, in the future, the county maintain documentation supporting amounts transferred to pay health insurance premiums, and that employee share of premiums be posted to salary accounts.

*County Judge/Executive's Response:*

*We now transfer Health Insurance premiums pro rata per department.*

6) Quarterly Income Taxes Should Be Remitted In A Timely Manner

During our audit, we noted that quarterly income taxes were not remitted in a timely manner. Specifically, 941 forms for the quarters ended December 31, 1999 and March 31, 2000 were not submitted to federal taxing authorities until June 2000. In addition, the quarterly 941 forms did not agree to the county's payroll records for fiscal year ended June 30, 2000. Gross pay per county payroll records exceeded the amount reported on 941 forms by \$17,533. We recommend, in the future, that quarterly income taxes be remitted in a timely manner, and that 941 forms be reconciled to the county's payroll records.

*County Judge/Executive's Response:*

*All required reports are now filed in a timely manner.*

MARION COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 Fiscal Year Ended June 30, 2000  
 (Continued)

NONCOMPLIANCES WITH STATE LAWS AND REGULATIONS (Continued)

4) Quarterly Income Taxes Should Be Remitted In A Timely Manner (Continued)

*Former County Treasurer's Response:*

*There were, at time, some documentation missing. The County Judge would take the documents and not return same. Thus, I could not locate same. I was overloaded and had no help.*

5) Payroll Expenditures Should Be Properly Posted To The Appropriations Ledger

We noted that payroll was not properly posted to the appropriations ledger during fiscal year ended June 30, 2000. Rather than posting payroll checks at gross amounts, net pay was posted to individual salary accounts, and withholdings were posted separately. While this practice may require more bookkeeping, it produces the same results. However, our audit procedures revealed that some withholdings were not posted to salary accounts for several pay periods. Also, of the appropriations ledger accounts we examined, no amounts were posted for insurance or deferred compensation; apparently, these amounts were incorrectly posted to employer share accounts. The result of these errors is that the payroll accounts per the county financial statement are inaccurate and incomplete. We recommend, in the future, payroll expenditures be accurately and completely posted to appropriations ledger salary accounts.

*County Judge/Executive's Response:*

*These procedures are now being properly followed by the County Treasurer.*

*Former County Treasurer's Response:*

*See previous answer.*

8) The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 30, 2000, \$214,915 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require all depository institutions to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into written agreements with all depository institutions to secure the county's interest in the collateral pledged or provided by the depository institutions. According to federal law, 12 U.S.C.A. § 1823(e), these agreements, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MARION COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2000  
(Continued)

NONCOMPLIANCES WITH STATE LAWS AND REGULATIONS (Continued)

- 6) The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral  
And Enter Into A Written Agreement To Protect Deposits (Continued)
- 

*County Judge/Executive's Response:*

*Written Agreements with each depository institution are now being formulated.*

*Former County Treasurer's Response:*

*Bank supposed to take care of.*

PRIOR YEAR FINDINGS

These prior year findings have not been corrected and are repeated in this report.

- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- Accurate Accounting Records Should Be Maintained By The County

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CERTIFICATION OF COMPLIANCE –  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MARION COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

Appendix A





CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MARION COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Marion County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes



Name

County Judge/Executive

Name

County Treasurer